

FDIC State Profile

Fall 2005

Oregon

Oregon job growth continued to strengthen and the outlook is promising.

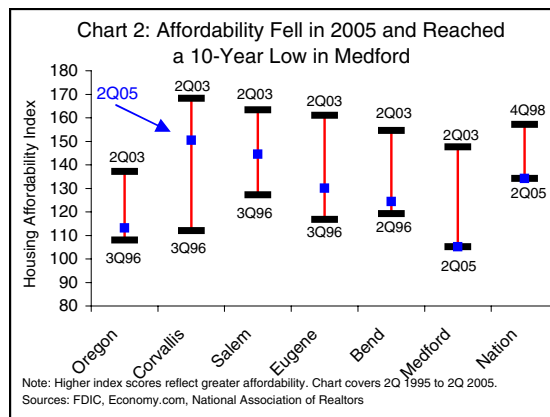
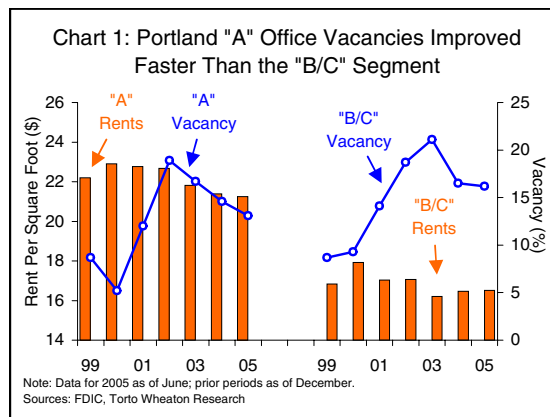
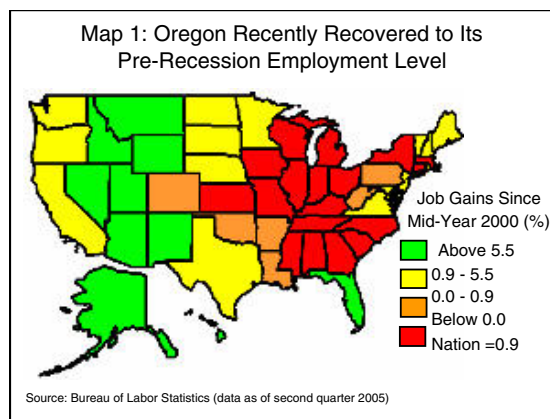
- Oregon lost about 60,000 jobs during and after the 2001 recession. Growth resumed in 2004 and by early 2005 the state surpassed its pre-recession job peak (see Map 1).
- The recent recovery has been balanced, with several sectors (construction, retail trade, leisure, government, education and health services, and even manufacturing) adding jobs.
- Although the annual job growth rate in Oregon moderated between the first and second quarters of 2005, it still ranked fifth nationwide.
- Forecasts indicate that Oregon job growth will be strong in 2005, but will moderate slightly in 2006. However, the **Corvallis** metropolitan area could be disproportionately hurt by job cuts at Hewlett Packard.
- Recent hurricanes likely will have indirect implications for the Oregon economy. Post hurricane reconstruction in the Southeast may create labor and construction supply pressures. Moreover, energy price increases may have some adverse effects on consumer demand, including travel and tourism.

Oregon employment gains drove commercial real estate (CRE) improvements.

- **Portland** office and industrial vacancies improved through June 2005; however, class "A" properties have recovered faster than the "B/C" properties (see Chart 1).¹
- CRE loans continued to climb at Oregon-based institutions. At second quarter 2005, insured institutions in Oregon ranked fourth in the nation for CRE to Tier 1 capital concentrations; at the metro level, **Salem** and **Eugene** ranked second and nineteenth, respectively.

Oregon housing markets may face risks prospectively.

- Second quarter home prices jumped almost 16 percent on an annual basis in Oregon, compared to over 13



¹Per Torto Wheaton Research.

percent for the nation; and grew by more than 17 percent and 26 percent in Eugene and Medford respectively.² Second quarter housing affordability fell in Oregon and reached the lowest level in a decade in **Medford** (see Chart 2).³

- In first half 2005, residential mortgage activity in the state of Oregon was characterized by active levels of investor participation and use of innovative mortgage products, even among non-prime borrowers. For example, 29 percent of Alt-A (low documentation) Oregon mortgages were to investors and second-home owners compared to 24 percent for the nation.⁴ However, innovative (option ARM and interest only) mortgages accounted for more than 41 percent of subprime and Alt-A mortgages securitized in Portland compared, slightly less than the 44 percent average for metropolitan areas nationwide.⁵

Bankruptcy filings are on the radar screen.

- Second quarter personal bankruptcy filings in Oregon spiked 8 percent from one year ago because of pending bankruptcy law changes. Filings also exceeded the nation on a per capita basis (see Chart 3).
- Consumer loan delinquencies at Oregon institutions were near historical lows. However, should interest rates rise or hurricane-related energy price hikes persist, institutions could experience an uptick in consumer loan delinquencies.

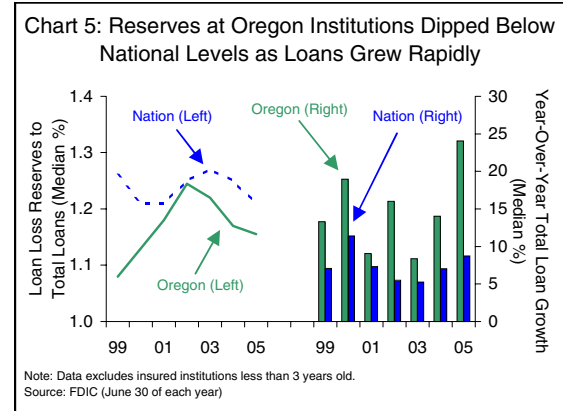
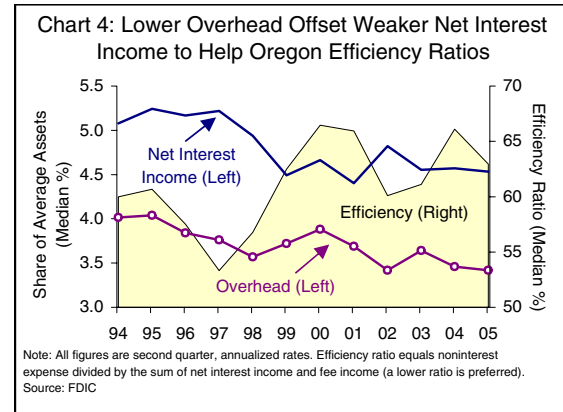
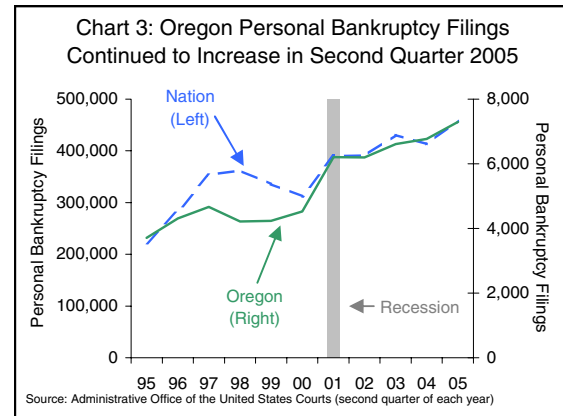
Lower overhead expenses helped keep profits steady.

- Second quarter 2005 profits remained strong as margin compression and lower security gains generally offset overhead expense improvements.
- Although improving, the median efficiency ratio (the share of net operating revenues absorbed by overhead expenses) ranked 30th in the nation, in part because 20 percent of charters in the state are new (see Chart 4).⁶

Insured institutions reported strong credit quality.

- Although asset quality slipped mildly in Portland, Oregon insured institutions continued to report one of the lowest past-due loan levels in the nation as of second quarter 2005.⁷ Improving economic conditions, low interest rates, and strong loan growth aided credit quality.

- Loan growth accelerated and ranked fourth nationwide; home equity lines of credit and relatively higher-risk C&D loans led the trend.
- Although improving, the level of loan loss reserves to total loans lagged the nation (see Chart 5). Rapid growth in higher-risk loan portfolios may pressure loss reserve requirements prospectively as loan portfolios season, particularly if interest rates continue to rise and home appreciation slows.



²According to Office of Federal Housing Enterprise Oversight data.

³According to Economy.com and National Association of Realtors data.

⁴Based on LoanPerformance data.

⁵Ibid.

⁶The efficiency ratio equals noninterest expense (overhead) divided by the sum of net interest income and noninterest income. New institutions include banks and thrifts opened in the past three years.

⁷The Portland area includes Clackamas, Columbia, Multnomah, Washington, and Yamhill counties.

Oregon at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	3.1%	4.1%	2.2%	2.0%	-0.7%
Manufacturing (13%)	2.9%	4.1%	2.7%	2.4%	-3.3%
Other (non-manufacturing) Goods-Producing (6%)	6.7%	9.8%	8.7%	6.5%	-1.5%
Private Service-Producing (65%)	3.3%	4.1%	2.0%	1.9%	0.3%
Government (17%)	1.7%	2.3%	0.7%	0.7%	-1.9%
Unemployment Rate (% of labor force)	6.5	6.3	7.4	7.4	8.1

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	6.0%	6.3%	6.6%	5.7%	2.0%
Single-Family Home Permits	17.6%	25.2%	16.1%	13.6%	5.0%
Multifamily Building Permits	-22.5%	89.3%	-6.4%	-2.4%	41.7%
Existing Home Sales	6.8%	17.3%	16.3%	15.8%	8.6%
Home Price Index	15.9%	13.4%	8.6%	9.8%	4.9%
Bankruptcy Filings per 1000 people (quarterly annualized level)	8.31	6.50	7.78	6.87	7.19

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	39	40	38	40	38
Total Assets (in millions)	22,562	22,524	20,504	23,601	21,395
New Institutions (# < 3 years)	8	8	6	8	4
Subchapter S Institutions	2	2	2	2	2

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.45	0.44	0.55	0.44	0.84
ALLL/Total Loans (median %)	1.19	1.21	1.17	1.20	1.18
ALLL/Noncurrent Loans (median multiple)	6.16	4.76	3.01	4.86	2.32
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.01	0.05	0.12

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	10.21	10.23	10.25	10.52	10.38
Return on Assets (median %)	1.14	1.08	1.14	1.13	1.26
Pretax Return on Assets (median %)	1.67	1.59	1.70	1.52	1.75
Net Interest Margin (median %)	5.02	4.98	4.96	4.95	5.04
Yield on Earning Assets (median %)	6.51	6.25	6.05	6.12	6.53
Cost of Funding Earning Assets (median %)	1.65	1.48	1.19	1.27	1.44
Provisions to Avg. Assets (median %)	0.13	0.20	0.15	0.17	0.24
Noninterest Income to Avg. Assets (median %)	0.71	0.58	0.79	0.66	1.04
Overhead to Avg. Assets (median %)	3.42	3.49	3.46	3.47	3.73

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	74.0	76.1	70.5	74.7	72.8
Noncore Funding to Assets (median %)	16.3	16.9	14.9	16.6	14.0
Long-term Assets to Assets (median %, call filers)	15.9	22.0	24.0	23.1	26.2
Brokered Deposits (number of institutions)	13	14	13	13	11
Brokered Deposits to Assets (median % for those above)	6.5	4.3	2.3	2.5	2.8

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	105.7	99.3	99.1	97.1	90.9
Commercial Real Estate	431.0	442.3	397.1	427.4	384.6
<i>Construction & Development</i>	73.8	78.3	75.6	77.8	78.9
<i>Multifamily Residential Real Estate</i>	20.5	21.9	23.9	22.1	20.7
<i>Nonresidential Real Estate</i>	234.1	255.5	222.1	260.7	237.2
Residential Real Estate	64.0	65.1	66.7	65.2	70.3
Consumer	14.2	15.5	19.8	13.9	20.1
Agriculture	13.8	11.1	11.2	9.9	9.5

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Portland-Vancouver-Beaverton, OR-WA	36	22,964	< \$250 million	25 (64.1%)
Salem, OR	18	3,269	\$250 million to \$1 billion	10 (25.6%)
Eugene-Springfield, OR	16	3,068	\$1 billion to \$10 billion	4 (10.3%)
Medford, OR	13	2,219	> \$10 billion	0 (0%)
Bend, OR	13	1,692		